

The Changing Face of Procurement

The End of Functional Silos



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. . . one in which the traditional boundaries of functional “responsibilities” are becoming blurred.

SUCCESS
BUSINESS
LOGISTICS
TRANSPORT
SUPPLY CHAIN



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. . . the familiar silos of operational duties and focus are going through an evolution of expanding parameters centered on an enterprise-wide knowledge and increased stakeholder engagement.

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How do you fit into the new reality and not get left out in the cold?

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You become much more strategic in your thinking!

CPO Agenda:

“one strategic business thinker with the right skills and capabilities is worth 10 or 12 of your normal, run-of-the-mill purchasing people.”



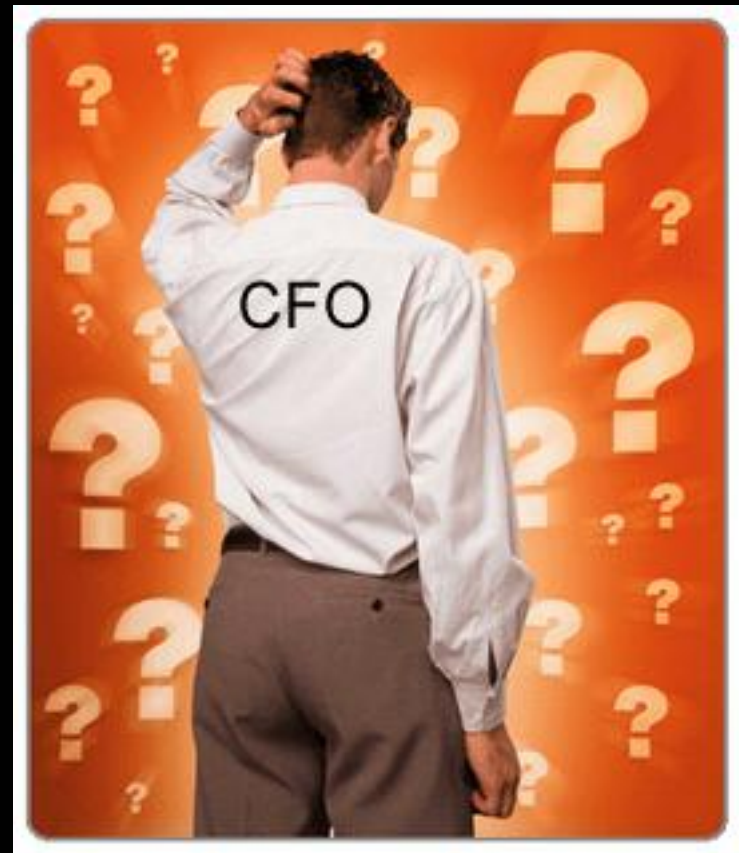
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You begin to think like a CFO!

2007 Aberdeen Survey:

- less than 20% consider the work of CPOs and their staffs as having a very positive impact on competitiveness
- on average only 46% feel that the procurement team has contributed to enterprise growth
- only 57% of CFOs feel that procurement contributes to enterprise profitability

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You begin to act like a CIO!

Information Week:

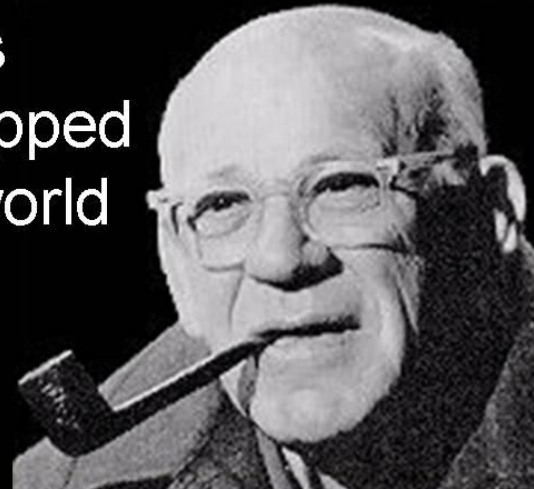
... a CIO with the well-rounded skills to be a trusted business leader, and a CIO who spends a good deal of time communicating with constituents – both internal and external customers.





**In times of change, learners
inherit the Earth. . .**

while the learned
find themselves
beautifully equipped
to deal with a world
that no longer
exists.



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Are you part of the new world or . . .



So How Does a CFO Think?

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- Obtain professional credentials
- Enthusiasm and hard work
- Learn about organization and its market environment
- Gain experience through role variety
- Be recognized re stand out from the crowd
- Networking with people
- Be willing to take risks

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- Passionate about career
- Willing to take on challenges beyond or outside of defined duties
- High ethics (IACCM lying reference)
- Strategic view of running the organization
- Experience at multiple levels within an organization
- Skill portability
- Focus on actions and results re build the biz and build the organization



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Knowing this about CFO's or finance officers in general, what does it tell you?



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Knowing this about CFO's or finance officers in general, how can you as a purchasing professional benefit?



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Which attributes or areas of focus does a CFO and purchasing professional share and how?



So How Does a CIO Think?

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- Need to be more innovative
- Major challenges associated with redefined role
- Information to Innovation transformation
- Poor existing resource utilization
- Looking beyond the technology to user/employee engagement
- Rationalization of existing platforms
- Next generation communication migration

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- Pay as you grow strategy (SaaS)
- A globalized view in terms of innovative platforms



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Knowing this about CIO's in general, what does it tell you?



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Knowing this about CIO's in general, how can you as a purchasing professional benefit?



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Which attributes or areas of focus does a CIO and purchasing professional share and how?



The Internet and Social Media

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“Associations could better leverage Web 2.0 to deliver a greater level of service to me as a supply chain professional by more actively, rapidly and efficiently aligning with the pace at which new, useful industry information becomes available – then delivering this information in an effective way, so as to keep me abreast of trends, best-practices and exchange ideas with fellow members; thereby making me a more valuable professional.”

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- Association communities of interest – private social networks based on the LinkedIn and Facebook model (re IACCM)
- Interactive media and convenient access
- eTools bridging internal procurement platforms with the Internet (re sourcing through Twitter)
- Instant access to real-time intelligence and resource capabilities



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As a purchasing professional how are you currently leveraging the Internet from a career and practical application standpoint?



Software-as-a-Service/Cloud Computing

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“Cabinet Office minister, Francis Maude, speaking at a meeting attended by 31 major government suppliers including BT, Hewlett Packard, IBM and CapGemini, claimed that large-scale bespoke IT systems – many of which have gone significantly over budget in the past – would henceforth be replaced by less expensive and “off the shelf” offerings.”

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“On that note, it’s time to take a battering ram to European business software giant SAP, it seems. “SAP will continue to battle it out on the sales front, but the reality is that business intelligence (from the Business Objects acquisition) is the feeding tube keeping the old man alive,” it snipes.

“As customers contemplate costly upgrades or inflexible maintenance, and others consolidate to be more agile, SAP has no new generation to offer. The duct tape and shoestring fixes are unrealistic, and companies now have credible alternatives” — suggesting only decline awaits for the Walldorf legend.”

November 17th, 2010 publicTECHNOLOGY.NET article

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“Adoption of the Coupa Cloud Spend Management Platform exploded in 2010 with monthly recurring revenue growing 156% year-over-year, placing Coupa among the fastest-growing software-as-a-service (SaaS) companies.”

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“RA.Pid® Self Service enables customers to see every detail of their spend in five minutes” and “RA.Pid® re-sets industry’s average cost of acquiring spend visibility from \$75,000 to \$99.”

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- SaaS is more than a new pricing model for the same old technology
- Cloud Computing is more than the latest and the greatest technological gizmo



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As a purchasing professional what does SaaS and Cloud Computing mean to you and your company?



Innovation

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- Innovation is not building functionality into an existing proprietary platform
- Innovation is leveraging the real-world, real-time adaptability of the Internet to learn and perform effectively in an increasingly globalized marketplace

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- Innovation does not react
- Innovation adapts

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- Innovation is not defined by an artificially created and enforced standard of limited disclosure (adversarial)
- Innovation is open and cooperative leading to mutual gain (collaboration)



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As a purchasing professional what does innovation mean to you?



Globalization

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What is governance in global value chains?

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- **Network** implying cooperation between firms of more or less equal power which share their competencies within the chain
- **Quasi-hierarchy** involving relationships between equally independent firms in which one is subordinate to the other, with a leader in the chain defining the rules to which the rest of the actors have to comply
- **Hierarchy** when a firm is owned by an external firm

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Why is governance important?

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Walmart and Vlasic Pickles

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- *“Young remembers begging Wal-Mart for relief. “They said, ‘No way,’ ” says Young. “We said we’ll increase the price”—even \$3.49 would have helped tremendously—”and they said, ‘If you do that, all the other products of yours we buy, we’ll stop buying.’ It was a clear threat.” Hunn recalls things a little differently, if just as ominously: “They said, ‘We want the \$2.97 gallon of pickles. If you don’t do it, we’ll see if someone else might.’ I knew our competitors were saying to Wal-Mart, ‘We’ll do the \$2.97 gallons if you give us your other business.’ ” Wal-Mart’s business was so indispensable to Vlasic, and the gallon so central to the Wal-Mart relationship, that decisions about the future of the gallon were made at the CEO level.”*

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- “The story is that Vlastic, a premium pickle brand, agreed to sell a gallon jar of pickles in Wal-Mart for an absurdly cheap price. What happened is fairly predictable. Why would consumers buy a small jar for \$3.00 when they could get a gallon for the same price? Yet the margin on the gallon jar was incredibly thin, so despite the increased volumes, the pickle maker took in less and less, especially when you factor in Wal-Mart’s insistence (stated up front) that suppliers lower their prices each year.”

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- *Finally, Wal-Mart let Vlastic up for air. “The Wal-Mart guy’s response was classic,” Young recalls. “He said, ‘Well, we’ve done to pickles what we did to orange juice. We’ve killed it. We can back off.’ “Vlastic got to take it down to just over half a gallon of pickles, for \$2.79. Not long after that, in January 2001, Vlastic filed for bankruptcy.”*

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What does this tell you about governance within the global supply chain?

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- On balance, firms that derive less than 10% of their sales through Wal-Mart averaged 39.1% in gross margin, the percentage of profit realized before items such as fixed costs and interest expense are considered. For those falling between 10% and 20%, gross margin was 36.2%. Above 20%, and margin dipped a little bit more, to 35.4%.
- This trend is most pronounced in the apparel-and-accessories category, where average gross margin drops from 48.7% for companies generating less than 10% of sales through Wal-Mart to 28.7% for those selling 20% or more. Food and beverage also shows a big disparity, where the same breakdown shows average gross margins dropping from 39% to 22%.
- In all, only 25 of 333 companies managed to beat their sector gross-margin average while generating at least 10% of their revenue through Wal-Mart. Only 7 that sold more than 20% there did it



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As a purchasing professional do you have a global perspective?

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With what you have seen today, where are you today in relation to where the market is now and . . . Where it's going in the future?